

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 MANILA 005937

SIPDIS

Sensitive

STATE FOR EAP/MTS
TREASURY FOR OASIA
TRANSPORTATION FOR FAA
SINGAPORE AND TOKYO FOR FAA
COMMERCE FOR BISBEE

E.O. 12958: N/A

TAGS: [BAIR](#) [ETRD](#) [BEXP](#) [RP](#)

SUBJECT: Boeing eyes Cape Town Treaty benefits for airplane deal

Sensitive but Unclassified - Not for Internet - Protect Accordingly.

REF: A) MANILA 5276
B) STATE 199212

Summary

1. (SBU) Boeing Sales Representative Ray Lau updated emboffs on the status of his proposal to Philippine Airlines (PAL) and confided that he is making progress toward the sale of up to 12 wide body aircraft. Lau said it would greatly benefit all Philippine airlines if the GRP ratified the Cape Town Treaty because U.S. EXIM Bank has agreed to extend preferential financing to treaty participants. This would remove some financial impediments to the airplane deal and boost Boeing's attractiveness to PAL. Embassy will encourage GRP ratification and continue to work with PAL executives on the purchase of Boeing planes. End Summary.

One step closer?

2. (SBU) Boeing rep Ray Lau told emboffs at a meeting December 20 that he was making good progress on an airplane purchase deal with Philippine Airlines (PAL). He thought the timeline for a PAL purchase of wide body planes would be far shorter than the five years reported in a recent newspaper article. Lau said PAL owner Lucio Tan no longer considered a two-engine plane like the Boeing 777 less safe than a four-engine plane (ref A). Lau said the sticking points to finalizing the deal remain PAL's forfeited deposit of approximately \$114 million from an aborted plane sale in 1999 and Boeing's ability to deliver planes expeditiously. Lau admitted that if Tan does not commit soon, PAL might not receive the planes until 2010 or later because of Boeing's recent large commitments to other airlines, including Qantas and Cathay Pacific.

3. (SBU) One potential drain on Tan's finances could be his company's effort to take over the new terminal at Ninoy Aquino International Airport (NAIA). His Asia's Emerging Dragon Corporation is suing in court to become the operator, at a potential cost of \$300 million. There is speculation Tan may be delaying any other purchases until a final decision is made on the operator for the unopened terminal. In a separate meeting with EconCouns, Tan admitted his hopes for taking over the new terminal with GE as an additional investor.

Treaty is a win-win situation

4. (U) During his visit to Manila, Lau discussed the benefits of the Cape Town Treaty to the GRP, Philippine Airlines, aviation-related American companies, and banks that may finance aviation purchases. The aviation-based treaty reduces the risk to asset-based financing and leasing transactions, which increases the availability of aviation credit. The U.S. ratified the Cape Town Treaty in 2004, but Malaysia is so far the only country in Southeast Asia to ratify it. The U.S. Export-Import Bank agreed to reduce its exposure fee by one-third on commercial aircraft for airlines in countries that sign, ratify, and implement the treaty, according to its website. This would reduce airlines' financing costs for new aircraft. Lau added that an EXIM guarantee would be "great for banks" such as Citibank and JP Morgan Chase Bank that may consider financing the purchase. More attractive financing may lead to increased purchases or leases of American planes, which could also benefit engine manufacturers GE and Pratt-Whitney, leasing companies such as GE Commercial Aviation Services and International Lease Finance Corporation, and

other aviation-related companies.

15. (SBU) Lau suggested that PAL's previous objections to GRP signing the treaty may have waned. PAL may have previously balked at the treaty to prevent Cebu Pacific from taking advantage of the beneficial terms. However, Cebu Pacific has already committed to buying Airbus and PAL is now considering its own wide body re-fleeting. Lau added that senior PAL executives support the treaty signing at this point. On a less sanguine note for Boeing's prospects, Lau noted that EXIM confiscated one of PAL's aircraft in San Francisco many years ago. According to Lau, one senior executive told him that because of the embarrassment this caused PAL, he "would rather pay more than deal with EXIM Bank again." However, Lau believes relations between EXIM Bank and PAL have warmed considerably, especially after the visit of EXIM Bank Transportation Division Vice-President Bob Morin to Manila in November to meet PAL Chief Financial Officer Andrew Huang.

Comment

16. (U) Embassy continues to work with both the GRP and the private sector to encourage PAL's purchase of Boeing planes. Emboff delivered Cape Town Convention demarche to United Nations and International Organizations Directorate at the Department of Foreign Affairs recently, but has not yet received a response (ref B). We will continue to encourage Philippine ratification of the Cape Town Convention to strengthen the US-RP civil aviation relationship and reduce barriers to aircraft financing. This will not only make it easier for PAL to follow-through on its plans for fleet replacement but would encourage the expansion and modernization of all Philippine fleets.

JONES